

August 6, 2020

## Research Flash Update

### Essential Utilities, Inc.

(WTRG/NYSE)

Rating/Risk:	<b>Outperform/Moderate</b>
Price:	\$44.69
Target Price (\$US):	\$50.00
Market Cap (\$US millions):	\$10,951
ADTV (US\$ millions):	\$46.6
Price as-of Prior Day Close	
Target Price and Rating are for 12 months.	

Estimates	EPS		Revenue (Net)		P/E
	B&S	Cons.	B&S	Cons.	
2018A	\$1.08	-	\$838.1	-	41.4x
2019A	\$1.00	-	\$889.7	-	44.6x
2020E*	\$1.40	\$1.48	\$1,485	\$1,656	31.8x
2021E	\$1.70	\$1.66	\$1,658	\$1,813	26.3x

FYE 12/30; Revenue in USD millions.

All historical EPS and B&S EPS estimates GAAP.

\*MOAP guidance of \$1.53-\$1.58 reflects full year of Peoples.

Source: Capital IQ, B&S Estimates

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### EPS surge 17% as lockdowns drive residential demand; Growth outlook robust, highly visible.

Essential Utilities reported 2Q EPS of \$0.29, up 17% year/year, with solid organic growth in the core water business and the addition of Peoples Gas driving a strong quarter, and management affirming its 2020 EPS guidance of \$1.53-\$1.58 (MOAP-basis). Excluding \$150 million from Peoples, revenue rose 7.3% year/year in the core water business. Management says that higher residential demand due to COVID-19 quarantining more than offset the negative impact of the recession on commercial and industrial demand in the quarter.

An active rate pipeline is a usually a good thing for a regulated utility, but in the current environment, where rate increases are even more politically fraught than normal due to the impact of the COVID-19 recession on households, it pays to be off the radar. With just \$5.2 million pending vs. annual revenue ~\$1.5 billion, Essential's current rate pipeline is light. This is more a matter of being lucky than good (both Peoples and Aqua Pennsylvania recently wrapped up major rate cases), but either way it positions the company well to ride out the recession avoiding what could be meaningful regulatory lag.

Essential's \$276 million DELCORA acquisition has seen unexpected delays due to a local legal challenge, but we believe the deal will close in 2020, creating a notable growth catalyst (see our June 18 note for details). Meanwhile, the municipal deal pipeline continues to expand, with Pennsylvania leading the way. In June, the city council in Norristown (pop. 35,000) approved the sale of the WW system to Aqua for \$82 million. In addition to its size, Norristown is strategic because, with DELCORA, it would create a large PA WW ratepayer base, enabling future bolt-ons. Also, as the county seat in populous Montgomery County, Norristown is an anchor for peripheral deals.

After a brief lull at the onset of the COVID-19 pandemic, Essential is fully back up and running on its capital investment program, with the current 2020 capex target at \$950 million (Aqua + Peoples). Early on in the pandemic, there were fears that rate base growth could slow (sapping future earnings growth), but this has not transpired.

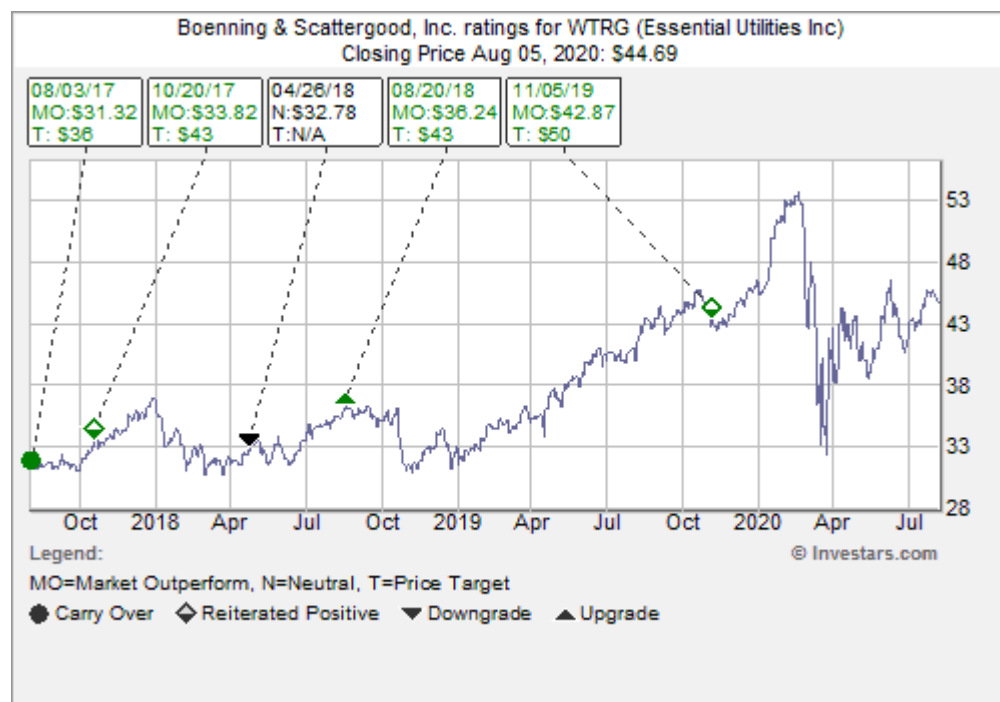
Essential's solid 2Q, guidance/growth target affirmation, active M&A pipeline, and continued execution on its capital investment program amid the huge COVID-19 economic shock epitomize the resilience of the regulated utility business model. We reiterate our Outperform rating for Essential, which we see as a best-of-breed player in the regulated utility space with notable near-term growth catalysts.

Our price target of \$50 reflects a forward P/E multiple of 30.1 times, ~in-line with the current peer group average of 29.5 times.

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## Disclosure Appendix

### Rating and Price Target History:



### Risk Factors

The realization of any or all of the following risk factors, among others, may adversely affect the company's stock price and prevent it from reaching our price target: the economic cycle, concentration in energy sector, foreign currency exposure, and client concentration.

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- **Moderate:** The security has average fundamental predictability and/or average price volatility.
- **High:** The security has lower-than-average fundamental predictability and/or higher-than-average price volatility.
- **Speculative:** The security has very inconsistent fundamental predictability and/or very high relative price volatility.

## Ratings Distribution (6/30/20):

Coverage Universe (a)	% of Universe	Investment Banking Clients (b)	% of Rating Group
Outperform (Buy)	22%	Outperform (Buy)	24%
Neutral (Hold)	40%	Neutral (Hold)	6%
Underperform (Sell)	0%	Underperform (Sell)	0%
Not Rated	38%	Not Rated	21%

(a) Related to services provided within the past 12 months.

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